OFFICE OF MAYOR VIRG BERNERO
124 W. MICHIGAN AVENUE – NINTH FLOOR
LANSING, MI 48933

House Tax Policy Committee
Testimony on HB4361/4362
March 8, 2011

Randy Hannan, Deputy Chief of Staff
Office of Mayor Virg Bernero
City of Lansing
rhannan@lansingmi.gov
517-256-7633

Karl Dorshimer, Vice President
Lansing Economic Development Corporation
City of Lansing
kdorshim@lansingmi.gov
517-483-4152

Mr. Chairman, members of the committee, thank you for the opportunity to speak to you today about the matters pending before this committee. I'm Randy Hannan, deputy chief of staff in the office of Mayor Virg Bernero. With me today is Karl Dorshimer, vice president of the Lansing Economic Development Corporation.

Mayor Bernero sends his regards, and his regrets, that he could not be here personally. If he were here, he would tell you that we cannot have a strong Michigan without strong cities. Strong cities are the backbone of strong regions that can compete on a national and global scale.

Yet, here in Michigan, we have taken a different course. We haven't built up our cities, we have hollowed them out. Instead of being powerful centers of commerce and innovation, instead of being the hub of the wheel, we have made our cities the hole in the donut.

Reversing that trend and driving the redevelopment of our cities means making it an explicit goal of state policy. It means taking a proactive approach to the task of rebuilding and repopulating urban core cities to create powerful economic regions. It means making strong cities a valued outcome - and a legitimate public purpose - that calls for the commitment of real resources in pursuit of a clear urban redevelopment strategy.

The incentives we grant are first and foremost about fixing financially upside-down sites so they can be put back into economically productive activity. The benefits to the business, to our general fund, and to the people who are hired for the new jobs, are icing on the cake.

Furthermore, the tax incentives we award aren't forever - they are time-limited, and when these properties come back on line the city and the state will get the full reward of having offered that short-term enticement to do business here in Michigan.

Let me tell you - there is no more favorable business climate in America than in a Michigan Renaissance Zone. So why would we even think about eliminating our incentives while other states continue with even more aggressive efforts to take away our prospects for new jobs? It is nothing less than unilateral disarmament.

We understand and appreciate the governor's desire to "reset" Michigan's tax policy, to start with a clean slate. It is certainly a worthwhile goal. But we believe it is unwise, as part of that process, to eliminate the very tax credits that are driving economic growth and job creation in cities across this state. It's like throwing out the baby with the bathwater. It's like saying that in order to reinvent state government, we have to tear down the State Capitol and build a smaller, more efficient structure.

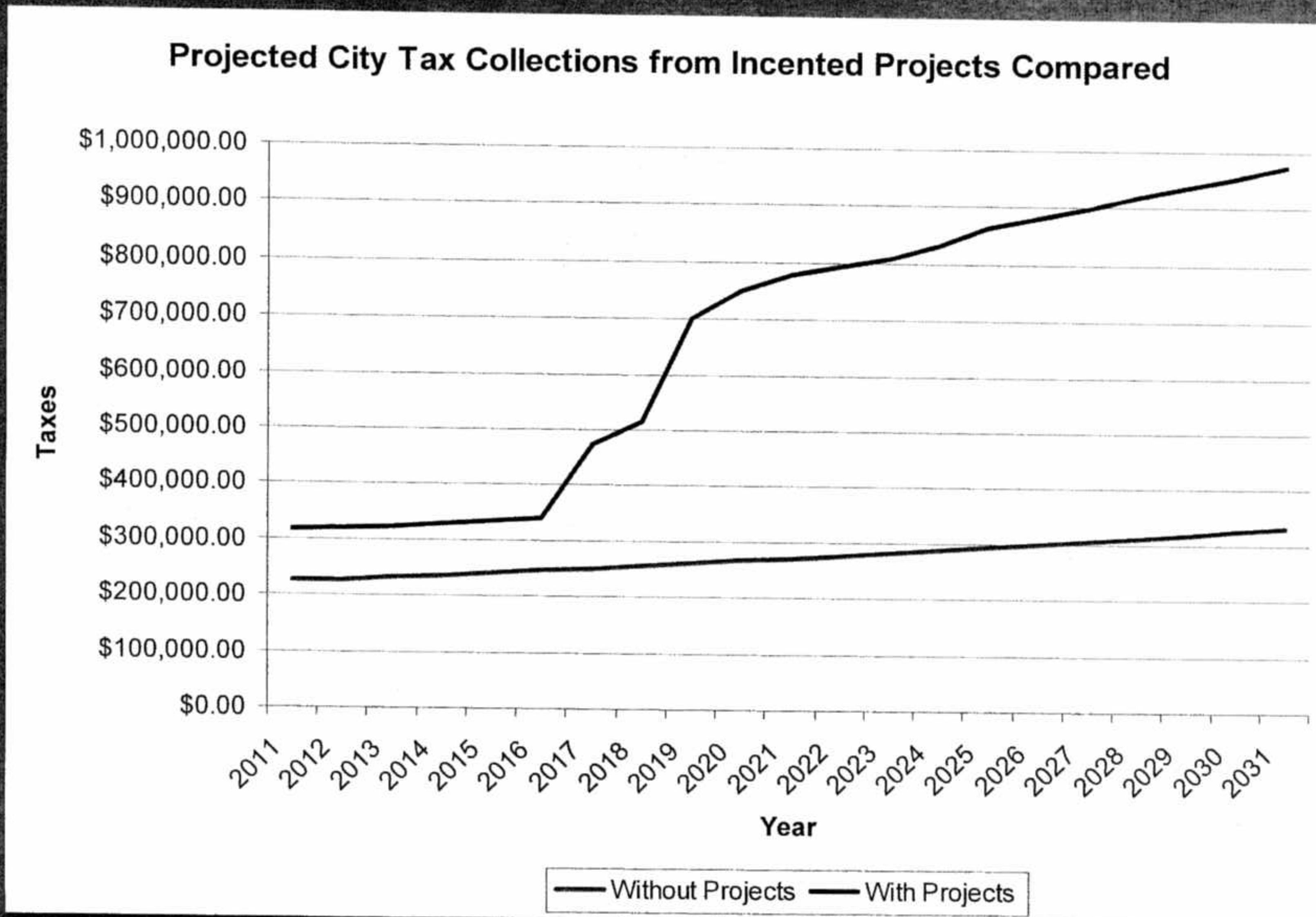
I would also note that the vast majority of our incentives are approved for existing Michigan companies to help them grow and take advantage of new opportunities in the global market. We consider the taxes we abate to be the public investment we are willing to make to leverage hundreds of millions in new private investment and to retain and create thousands of jobs.

We don't need any studies here in Lansing to tell us whether incentives work or not. We know they do and we can prove it. In fact you can look around Lansing's downtown and see it with your own eyes. As I mentioned previously, the Ottawa Power Station, the Mutual Building, the Hollister Building, the Arbaugh, the Ranney Building, and dozens more across the city, all of them have been restored and repurposed only because there were financial incentives to tackle them, to level the playing field, to help offset the additional costs inherent in updating an old building instead of building a new one, or in cleaning up a contaminated site instead of building on a greenfield site.

With regard to the Administration's proposal to create an appropriated fund in the MEDC budget to finance tax incentives, we have several concerns. First, the governor's proposed appropriation is a fraction of what is required - the total amount of the proposed brownfield and historic credits could easily be consumed by a small number of large economic development projects.

Second, a limited pool of resources introduces tremendous uncertainty into the business of negotiating with companies over a new investment. If we can't say for certain that the state funds will be there, the deal probably won't happen. If there is a chance that appropriated funds will run out before a deal is completed, or that it will be subject to future cuts that undermine its value, what business person worth their salt is going to trust that the credit will be there, that the state will keep up its end of the bargain?

Our current system for allocating tax incentives doesn't have that problem. The incentives we award at the local level for specific sites are demonstrably successful, and they are granted in a way that is both transparent and accountable. In short, not only is the system not broken, it is working very well, and the results are both tangible and meaningful in terms of new investment, strengthening our tax base, and retaining and creating new jobs for our residents.



Projected City Tax Collections from Incented Projects Compared
Taxes
$1,000,000.00
$900,000.00
$800,000.00
$700,000.00
$600,000.00
$500,000.00
$400,000.00
$300,000.00
$200,000.00
$100,000.00
$0.00
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
Year
Without Projects
With Projects